Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 30, 2014 .... **Agenda Item **#9**

Company: Xcel Energy

Docket No. G**-002/M-14-288**

In the Matter of Xcel Energy Gas's 2013 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

Issue(s):

1. Should the Commission approve Xcel's 2013 CIP tracker account?

2. Should the Commission approve an incentive of $5,416,936 for Xcel's 2013 CIP achievements?

3. At what level should the Commission set the CIP Adjustment Factor for 2014/2015?

4. Should the Commission approve Xcel's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

5. Should the Commission eliminate the carrying charge or otherwise modify its application to Xcel's tracker balance for the CIP rider effective with the date of the Commission's Order?

Staff: Marc Fournier 651-201-2214

Relevant Documents

Initial Filing Xcel Energy Gas .... April 1, 2014

Errata to the April 1, 2014 Petition
of Xcel Energy Gas .... May 21, 2014

Comments of the Department of Commerce,
Division of Energy Resources (DOC) .... July 15, 2014

Reply Comments Xcel Energy .... July 28, 2014

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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I. Statement of the Issue(s)

1. Should the Commission approve Xcel's 2013 CIP tracker account?

2. Should the Commission approve an incentive of $5,416,936 for Xcel's 2013 CIP achievements?

3. At what level should the Commission set the CIP Adjustment Factor for 2014/2015?

4. Should the Commission approve Xcel's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

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II. Relevant Statute

Minn. Stat. § 216B.16, subd. 6c.

Incentive plan for energy conservation improvement. (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.

(b) In approving incentive plans, the commission shall consider:

(1) whether the plan is likely to increase utility investment in cost-effective energy conservation;

(2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;

(3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and

(4) whether the plan is in conflict with other provisions of this chapter.

(c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation programs. The commission may:

(1) increase or decrease any otherwise allowed rate of return on net investment based upon the utility's skill, efforts, and success in conserving energy;

(2) share between ratepayers and utilities the net savings resulting from energy conservation programs to the extent justified by the utility's skill, efforts, and success in conserving energy; and

(3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility.

The Conservation Improvement Project Rider was submitted in accordance with the Miscellaneous Tariff rules.

III. Background

On April 1, 2014, Northern States Power Company d/b/a Xcel Energy filed a petition requesting approval of its 2013 natural gas CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2013 Performance of $5,416,936, and 2014/2015 Gas Conservation Improvement Program Adjustment Factor. The Petition includes a report of proposed recoveries and expenditures in Xcel's gas CIP tracker account during 2013, a proposed reduction in the currently approved gas CIP Adjustment Factor (CAF), and a proposed incentive for its 2013 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on July 15, 2014.

On July 28, 2014, reply comments were filed by Xcel Energy. The DOC filed reply comments on August 27, 2014.

Below are the DSM financial incentives 2009 to 2013 for the Minnesota gas utilities filing for DSM incentives:

DSM Financial Incentives 2009-2013

	2009	2010	2011	2012	2013
Xcel	$965,307	$2,264,511	$2,833,206	$2,682,879	$5,416,936
Center Point Energy	$1,394,200	$3,933,921	$4,590,392	$3,207,411	$10,890,131
Great Plains	$0	$18,915	$37,707	$114,763	$24,137
Interstate Power	$86,463	$85,716	$15,349	$20,097	$37,207
Minnesota Energy Resources Corp.	$582,288	$2,292,375	$2,587,948	$2,729,531	$2,492,730

IV. Parties' Positions

Xcel: Xcel agrees with the DOC's recommendation to approve the 2013 gas CIP Tracker activity as filed and CIP financial incentive of $5,416,936 for the Company's 2013 DSM performance.

With respect to Carrying charges, the Company argued that carrying charges serve the purpose of keeping our customers and the Company whole for mismatches in cost recovery over discrete periods of time. The use of carrying charges goes both ways and should be continued.

Xcel calculate its CIP Riders to recover CIP costs and incentives in a manner that produces a balance as close as possible to zero at the end of the recovery period to minimize carrying charges. As pointed out by the DOC, this has resulted in historical total annual carrying charges that are relatively insignificant. In addition, there have been years where the Company has paid out more carrying charges to customers than collected.

Further, the application of the carrying charge is consistent with Commission precedent and policy. The continued application of carrying charges was recently approved along with MN Power's CIP 2014/2015 Conservation Program Adjustment (CPA) factor and in Docket No. E015/M-14-233. A broad-based change in Commission policy should not be made in the context of an individual utility's annual filing, and should not be applied inconsistently between utilities.

For these reasons, Xcel believes it is still appropriate to apply carrying charges to the CIP tracker balance and respectfully requests the Commission continue to allow the application of carrying charges at this time.

Xcel indicated that it always calculates each rider to reduce the Tracker to approximately $0 by the end of September 2015. Xcel provided two rate scenarios and the resulting tracker balance at the end of September 2015. First assumes a business as usual carrying charge the rate would be $0.13818 per Dth and a $310 tracker balance. The second is a scenario which assumes no carrying charge the rate would be $0.14273 per Dth and a $458 tracker balance.

Xcel indicated that it prefers the continuation of carrying charges on the tracker balance, and requests the approval of $0.13818 per Dth CIP rider.

DOC: The DOC recommends that the Commission approve Xcel's proposed 2013 gas DSM financial incentive of $5,416,936 and allow Xcel to include the incentive in the Company's gas CIP tracker account no sooner than the issue date of the Commission's Order in the present docket. Also, the DOC recommends that the Commission approve Xcel's 2013 gas CIP tracker account, as provided in the Company's Petition.

In addition, the DOC recommends that the Commission approve Xcel's proposed CIP Adjustment Factor of $0.016398 per therm.[1] The DOC also recommends that the Commission

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[1] In the Company's reply comments filed July 28, 2014, Xcel revised its proposed CIP Adjustment Factor from $0.16398 per dekatherm (Dth) to $0.13818 per Dth. The revised CIP Adjustment Factor calculation includes actual expenditures and recoveries in the CIP tracker account through June 2014. The

eliminate carrying charges on under- or over-recovered CIP balances. In the event that the Commission decides not to eliminate carrying charges on the entire CIP balance, the DOC recommends that the Commission not allow carrying charges on Xcel's DSM financial incentive beginning with the month following the Commission's Order in this docket.[2]

Finally, the DOC recommends that the Commission approve Xcel's proposed bill message with the modifications that the October 1, 2014 effective date and gas CIP Adjustment Factor listed in the bill message be updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate.

V. **Staff Discussion**

Staff agrees with the DOC that the 2013 tracker account was calculated correctly. As such, the Commission should approve Xcel's 2013 CIP Tracker account balance of ($4,680,426) as reported by the DOC.

With respect to the 2013 CIP incentive amount, Staff agrees with the DOC that the amount of $5,416,936 should be approved by the Commission.

With respect to the carrying charge applied to the CIP tracker, Staff agrees with the DOC that it should be eliminated for two reasons. First, Staff believes that the current carrying cost structure provides a perverse incentive for any Company to maintain the CCRA at relatively low level and carry a significant positive tracker account balance.[3] This increases the cost of the CIP over the long run.

Second, Staff believes that the goal should be to carry a zero balance as much as possible in the tracker account. By having a carrying charge of any size, it will reduce the likelihood of such an outcome.[4] Again, the goal should be to keep CIP costs at a minimum. In this context, having an incentive structure which facilitates this outcome, generally will facilitate the achievement of the desired outcome.

Department's review of the revised calculation indicates that the revised calculation is consistent with the approach the Company has followed in the past. This approach has been approved for previous CIP Adjustment Factors approved by the Commission.

2 The DOC continues to recommend that the Commission not allow Xcel to apply carrying charges on the CIP Tracker Account. If the Commission determines to not allow carrying charges, then the DOC recommends that the Commission approve Xcel's natural gas CIP Adjustment Factor of $0.14273 per Dth.

3 Staff notes however, Xcel Gas has carried a negative tracker balance in each of the past three years, 2011, 2012, and 2013.

4 Staff notes that a lower carrying charge will result in a reduced incentive for maintaining a significant tracker balance.

With this in mind, Staff believes that the Commission's September 26, 2014 Order Approving Financial Incentives, Setting Conservation Cost Recovery Adjustment, Reducing Carrying Charges, And Varying Rules in Docket No. E-017/M-14-201 is quite instructive and useful for this matter. In that Order, the Commission modified the carrying charge on the CIP tracker-account balance to the short-term cost of debt set in the Company's last rate case. In its Order at page 6, the Commission determined the following:

> The Commission concurs with the Chamber and the Department that it is no longer appropriate to grant the Company carrying charges on unrecovered CIP costs at its authorized rate of return. The Commission will, however, grant carrying charges at the Company's short-term cost of debt, as explained below.

The Commission defended its determination that using authorized rate of return as excessive and may not be appropriate in the rate rider/tracker account context at page 7:

> Here, the Commission concurs with the Chamber and the Department that granting carrying charges at Otter Tail's authorized rate of return would be excessive. While the CIP financial incentives making up the bulk of the CIP tracker account serve an important public-policy purpose, they are not the kind of costs—out of pocket costs—for which rate-of-return treatment can be most readily justified.

Additionally, the Commission reasoned that the generous carrying charges were appropriate at the beginning of the DSM financial incentive as a way to facilitate the success of the program. The Commission Order provided the following reasoning at page 7:

> Further, the factual context that led to setting carrying charges at the overall rate of return no longer applies. As the Department pointed out, in 1992—and for years thereafter—demand-side management financial incentives were small, the financial-incentive program was new, and it was important to use whatever tools were at hand to encourage its success. The incentives are now sizeable, the program is well established, and Otter Tail itself stated at hearing that reducing or eliminating carrying charges would not affect its conservation commitment or efforts, just its approach to rate amelioration.

Finally, the Commission reasoned that there is no perfect mapping between the cost recovery period and interest rates. However, the short-term cost of debt is the closest match. The Commission's Order stated the following at page 7:

> While there is no exact match between this additional twelve-month recovery period and a standard interest rate, the Commission concurs with the Department and the Chamber that the authorized cost of short-term debt is the closest match contained in the record. The twelve-month term typical of short-term debt corresponds to the twelve-month period CIP costs are typically carried in the tracker account. And, while the additional twelve months of recovery necessitated by the moderated CCRA level is anomalous, the short-term debt rate is still more consistent with the public interest than the overall rate of

return, given the nature of these costs—cash financial incentives—and the relatively short term—two years—within which they will be recovered.

Finally, the CCRA rate should be set with the goal of bringing the tracker account to zero in a timely but reasonable manner. In the event the Commission eliminates or reduces the carrying charges, it would be reasonable to bring the tracker to zero as quickly as possible. At the same time, the Commission needs to be mindful of the rate impact on the Company's customers. With the factors identified above in mind, Staff believes that a reasonable rate at this time would be $0.14273 per dekatherm (Dth). This was the rate proposed by Xcel in reply comments as a rate that should be used in the event that the Commission reduces or eliminates the carrying charges on tracker balances. Next year, the Company should evaluate the progress that has been made, and propose a rate which would continue the progress to bring the tracker balance to zero.[5]

VI. Commission Options

A. Should the Commission approve Xcel's 2013 CIP tracker account?

1. Approve Xcel's 2013 CIP tracker account as indicated at page four of the DOC's July 15, 2014 comments.

2. Do not approve Xcel's 2013 CIP tracker account.

B. Should the Commission approve an incentive of $5,416,936 for Xcel's 2013 CIP achievements?

1. Approve Xcel's 2013 financial incentive for CIP achievements.

2. Do not approve Xcel's 2013 financial incentive for CIP achievements.

C. What rate level for the CCRA (a.k.a. CIP adjustment Factor) should the Commission approve for the first billing cycle in the month following Commission approval, assuming reasonable time for implementation and customer notice?

1. Set the CCRA at $0.14273 per dekatherm (Dth) as recommended by the Company if the Commission eliminates carrying charges on the tracker balance.

2. Set the CCRA at $0.13818 per Dth as recommended by the Company if the Commission does not eliminate the carrying charge on the tracker balance.

3. Set the CCRA at $0.16398 per Dth as originally recommended by the Company.

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[5] Admittedly, Xcel Gas has done a very good job of maintaining a tracker balance at a minimum at either side of zero.

4. Leave the CCRA at its current level of $0.19529 per Dth.

D. Should the Commission approve Xcel's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

1. Approve Xcel's proposed bill message with the modifications that the October 1, 2014 effective date and gas CIP Adjustment Factor listed in the bill message be updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate.

2. Do not approve Xcel's bill message.

3. Delegate authority to the executive secretary to approve customer notices for the duration of this proceeding.[6]

E. Should the Commission eliminate the carrying charge or otherwise modify its application to Xcel's tracker balance for the CIP rider effective with the date of the Commission's Order?

1. Modify the carrying charge to reflect the Company's Short-term cost of debt established in the Company's last rate case, Docket No. G-002/GR-09-1153. The modification shall be effective as of the date of the Commission's Order in this docket.

2. Do not eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

3. Eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

4. Modify the application of the carrying charge to exclude the Company's financial incentive when determining the amount of carrying charges allowed for recovery.

5. Take other action the Commission deems appropriate.

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[6] If the Commission chooses this option, in the event of a change of any circumstances which require a modification of the notice, the matter would not have to come back before the Commission. The matter could be addressed by the Executive Secretary. As such, this would increase flexibility for all involved in the process. The parties may wish to address this issue in the course of comments which they make before the Commission.

VII. Staff Recommendation

Staff recommends items A1, B1, C1, D1, and E1.